

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-10 ISO-00 ACDA-12 OMB-01 CIAE-00 PM-05
H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01
SP-02 SS-15 USIA-06 IO-13 EB-08 TRSE-00 SSC-01
/104 W

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P R 051312Z JAN 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC PRIORITY 4267
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
ZNE/AMCONSUL OPORTO 1982
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USMISSION USNATO
DIA WASHDC
USCINCEUR VAIHINGEN GER
USNMR SHAPE BRUSSELS BEL
COMUSFORAZ
AMEMBASSY QUITO

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 0078

E.O. 11652: XGDS-3
TAGS: PINT, PO
SUBJECT: SOCIALISTS CALL FOR DECISION FROM CDS

SUMMARY: PS NEGOTIATOR ANTONIO REIS SAYS THE SOCIALISTS
WILL DEMAND A FIRM COMMITMENT FROM THE CENTER DEMOCRATS
JAN 5. IF THE CDS BALKS, SOARES WILL REPORT FAILURE TO
THE PRESIDENT. IF THE CDS AGREES, A GOVERNMENT COULD BE
SWORN IN AS EARLY AS NEXT WEEK. A SEPARATE PS-PCP
AGREEMENT WOULD BE SIGNED, AND THE SOCIAL DEMOCRATS WOULD
REMAIN ON THE OUTSIDE. END SUMMARY.
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1. AN OFFER THE CDS CAN'T REFUSE?: PS NEGOTIATOR
ANTONIO REIS TOLD POLITICAL COUNSELOR JAN 4 THAT THE
SOCIALISTS WERE DETERMINED TO BRING CURRENT INTER-PARTY
TALKS TO A HEAD BY THE WEEKEND. THE SOCIALISTS WILL
PRESENT A FIRM OFFER TO THE CENTER DEMOCRATS DURING A
JAN 4 EVENING NEGOTIATING SESSION. IF THE CDS RESPONSE

IS NEGATIVE DURING A SCHEDULED JAN 5 SOARES-FREITAS DO AMARAL SUMMIT, THE SOCIALISTS ARE PREPARED TO REPORT FAILURE TO THE PRESIDENT AND BEGIN PREPARATIONS FOR ELECTIONS. IF THE CDS RESPONSE IS POSITIVE, AGREEMENT WILL BE REPORTED TO THE PRESIDENT, AND A NEW GOVERNMENT COULD BE SWORN IN EARLY NEXT WEEK.

2. SWEETENING THE POT: ACCORDING TO REIS, THE SOCIALISTS ARE NOW PREPARED TO ACCEPT THE CDS NUMBER-TWO AMARO DA COSTA IN GOVERNMENT. HE WOULD PROBABLY GET THE COMMERCE PORTFOLIO. THIS, PLUS OTHER CONCESSIONS ALREADY ACCEPTED, MAY BE ENOUGH TO BRING THE CDS ALONG. REIS ASSERTED THAT AS THINGS MOVED CLOSER TO DECISION, THE CENTER DEMOCRATS WERE BECOMING INCREASINGLY JITTERY. WHAT REIS DESCRIBED AS A CONCERTED PSD EFFORT TO RAID THE CDS RANK AND FILE WAS HAVING TELLING EFFECT, ESPECIALLY IN THE RURAL NORTH.

3. COMING TO TERMS WITH THE PCP: REIS EMPHASIZED THAT ALL MAJOR PARTIES AND THE PRESIDENT ACCEPTED THE NECESSITY OF AN UNDERSTANDING WITH THE COMMUNISTS TO ENSURE A MINIMUM OF SOCIAL HARMONY ESSENTIAL TO ECONOMIC RECOVERY. THE COMMUNISTS WERE MAKING MINIMAL DEMANDS:
-- ORDERLY IMPLEMENTATION OF THE AGRARIAN REFORM LAW, RESPECTING THE FINANCIAL INTEGRITY OF COLLECTIVE PRODUCTION UNITS. THE COMMUNISTS WERE PREPARED TO ACCEPT THE LAW BUT SOUGHT SOME FLEXIBILITY IN THE TIMING OF ITS
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APPLICATION.

-- ASSURANCES RELATING TO INDEMNIZATION FOR PREVIOUSLY NATIONALIZED PROPERTIES. SPECIFICALLY THE COMMUNISTS SOUGHT GUARANTEES THAT THOSE CONVICTED OF CRIMES OF "ECONOMIC SABOTAGE" WOULD NOT RECEIVE BACK PROPERTY CURRENTLY UNDER WORKER MANAGEMENT. REIS THOUGHT BOTH PCP DEMANDS COULD BE MET WITH NO SIGNIFICANT HARM TO ONGOING GOVERNMENT POLICIES IN AGRICULTURE OR INDUSTRY. IN EXCHANGE, THE PCP WOULD AGREE TO ACCEPT A SERIES OF SPECIFIC AUSTERITY MEASURES ESSENTIAL TO AN UNDERSTANDING WITH THE IMF. THE ISSUE WITH THE COMMUNISTS AT THIS POINT WAS TIMING. THE CDS INSISTED THAT ANY PS-PCP AGREEMENT BE SIGNED ONLY AFTER THE FORMATION OF A NEW GOVERNMENT IS ANNOUNCED. THE PCP WAS EQUALLY ADAMANT IN DEMANDING THAT THE AGREEMENTS BE CONCLUDED SIMULTANEOUSLY. REIS THOUGHT THE ISSUE OF TIMING, COULD BE HANDLED. IN ANY CASE THE SOCIALISTS WOULD BE BARGAINING FOR PCP ABSTENTION RATHER THAN INITIAL SUPPORT OF THE GOVERNMENT.

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4. TOO LITTLE TOO LATE FROM THE PSD: REIS CONFIRMED
THAT PSD NEGOTIATORS HAD BECOME NOTABLY MORE MODERATE
DURING RECENT BARGAINING SESSIONS. THEY WERE WILLING TO
GO ALONG WITH THE BULK OF THE PS ECONOMIC PROGRAM, EVEN
THOUGH THEY MIGHT NOT SAY SO PUBLICLY. THEY REFUSED,
HOWEVER, TO BUDGE ON THEIR DEMAND FOR A FORMAL
PS-PSD-CDS COLAITION.

5. TOWARD A NEW GOVERNMENT: ASSUMING A POSITIVE RESPONSE
FROM FREITAS DO AMARAL ON JAN 5, REIS THOUGHT THE
PRESIDENT COULD MAKE A FORMAL ANNOUNCEMENT OF THE NEW
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GOVERNMENT AS EARLY AS THE WEEKEND. THE SWEARING IN OF
THE SECOND CONSTITUTIONAL GOVERNMENT COULD OCCUR NEXT WEEK.

SOARES, REIS ADDED, HAS DECIDED NOT TO UNDERTAKE ANY WHOLESALE GOVERNMENT REORGANIZATION NOW. INITIAL STRUCTURAL CHANGES WOULD BE MINIMAL--ONLY A FEW MINISTERIAL SLOTS WOULD BE DROPPED.

-- A VICE PRIME MINISTER WILL PROBABLY BE ADDED; FRANCISCO SALGADO ZENHA IS IN LINE FOR THE JOB. THE CDS HAS ALREADY AGREED.

-- THE MINISTER OF STATE (HENRIQUE DE BARROS) AND MINISTER-WITHOUT-PORTFOLIO (JORGE CAMPINOS) POSITIONS WOULD BE ELIMINATED.

-- THE HOUSING AND TRANSPORTATION MINISTRIES WOULD BE COMBINED.

6. PSD OPTS OUT: PSD INSIDER ANGELO CORREIA CONFIRMED TO POLITICAL COUSELOR JAN 4 THAT DESPITE RECENT CONCILIATORY WORDS FROM THE SOCIAL DEMOCRATS THAT THE PSD HAD NO INTENTION OF SIGNING ON TO A PS-CDS UNDERSTANDING. THE PSD GAME PLAN NOW ASSUMES A PS-CDS GOVERNMENT WITH A SIDE AGREEMENT BETWEEN THE SOCIALISTS AND COMMUNISTS. THE SOCIAL DEMOCRATS GIVE A PS-CDS GOVERNMENT UNTIL JUNE AT THE OUTSIDE; THEY FORESEE ELECTIONS IN NOVEMBER AND WILL ACT ACCORDINGLY.
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TAGS: PINT, PO
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